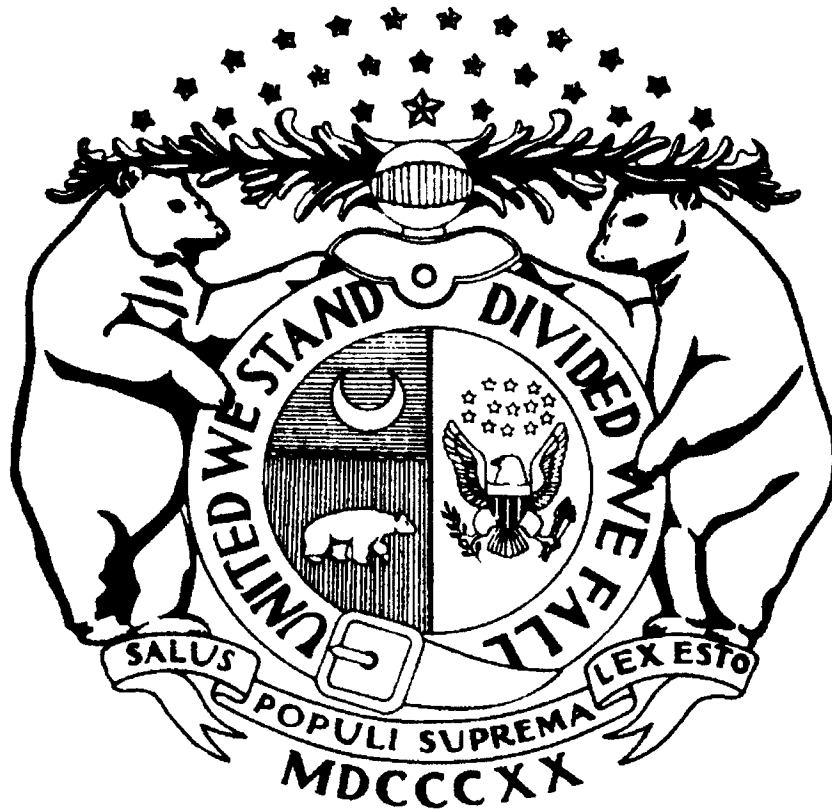


REPORT OF  
ASSOCIATION FINANCIAL EXAMINATION  
**UNITED INVESTORS LIFE  
INSURANCE COMPANY**

AS OF  
DECEMBER 31, 2004



STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI

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Birmingham, Alabama  
July 28, 2005

Honorable Alfred W. Gross, Commissioner  
Virginia Bureau of Insurance  
Chairman, (E) Financial Condition Committee, NAIC

Honorable Jorge Gomez, Commissioner  
Wisconsin Department of Insurance  
Secretary, Midwestern Zone, NAIC

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs, and financial condition of

**United Investors Life Insurance Company**

hereinafter referred to as such, as the "Company," or as "UILIC." Its administrative office is located at 2001 Third Avenue South, Birmingham, Alabama 35233, telephone number (205) 325-4300. This examination began on December 13, 2004, and concluded on the above date.

## **SCOPE OF EXAMINATION**

### **Period Covered**

The prior full scope association financial examination of UILIC was made as of December 31, 2000, and was conducted by examiners from the State of Missouri representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC), with the Northeastern Zone participating.

The current full scope association financial examination covers the period from January 1, 2001, through December 31, 2004, and was conducted by examiners from the State of Missouri, representing the Midwestern Zone of the NAIC, with no other zones participating.

This examination also included the material transactions and/or events occurring subsequent to the examination date which are noted in this report.

### **Procedures**

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures, and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

The examiners relied upon information supplied by the Company's independent auditors, Deloitte & Touche LLP of Dallas, Texas, for its audit covering the period from January 1, 2003, through December 31, 2003. This information included, but was not limited to, internal control documentation and testing.

### **Comments-Previous Examination**

The comments, recommendations, and notes of the previous report of financial examination as of December 31, 2000, are listed below with the subsequent response or action taken by the Company in regard to such comments, recommendations, and notes:

#### **Intercompany Transactions**

**Comment:** Neither the amended Service Agreement with Liberty National Life Insurance Company nor the Marketing Agreement with Globe Life and Accident Insurance Company had been filed with the Missouri Department of Insurance (MDI) for prior approval as required by RSMo 382.195 (Transactions within a holding company system). UILIC was directed to file these two agreements immediately and ensure that all future agreements with affiliates are filed with the Missouri Department of Insurance on a timely basis.

**Company's Response:** Both the amended Service Agreement with Liberty National and the Marketing Agreement with Globe Life were filed within the period following the prior examination and approved by the Missouri Department of Insurance during 2002.

**Current Findings:** As stated by the Company, both agreements were filed with, and approved by, the Missouri Department of Insurance.

#### **Intercompany Transactions**

**Comment:** The Company failed to fully disclose its intercompany agreements in all regulatory filings. The Company was directed to fully and accurately disclose all required information in its regulatory filings.

**Company's Response:** The agreements are discussed in the Notes to the Annual Statement as directed, under the heading "Information Concerning Parent, Subsidiaries, and Affiliates," and the expenses are included in column eight of Annual Statement Schedule Y.

**Current Findings:** Problems were noted in the current examination with respect to the disclosure of intercompany loans. See the "Intercompany Transactions" Section of this report for details.

#### **Insurance Products and Related Practices**

**Comment:** The Company did not have any projections for future years or a long-range business plan. It was recommended the Company complete a detailed business plan for three to five years.

***Company's Response:*** Since United Investors is not a publicly held company, planning is performed at the corporate level by the Company's ultimate parent, Torchmark Corporation (Torchmark). Torchmark personnel prepare projections and analysis as requested by management, rating agencies, and market analysts. The Company's current plan of operation was provided.

***Current Findings:*** As discussed in the "Territory and Plan of Operations" Section of this report, neither projections nor a long-range business plan were available for UILIC on a stand-alone basis or as a clearly identified component of a corporate plan.

### **Reinsurance**

***Comment:*** The insolvency clauses in many of the reinsurance agreements reviewed did not comply with 20 CSR 200-2.100(11) (Credit for Reinsurance). The Company was directed not to take credit for reinsurance unless the agreements meet all of the requirements of 20 CSR 200-2.100 (Credit for Reinsurance), including an acceptably worded insolvency clause.

***Company's Response:*** The reinsurance agreements cited by the examiners during the previous examination were all amended to conform to 20 CSR 200-2(11) during the period following the examination in 2002, and consequently the Company has continued to take reserve credit for reinsurance under the amended agreements.

***Current Findings:*** It appears the Company took the appropriate corrective action.

### **Accounts and Records**

***Comment:*** UILIC failed to provide some requested information to the examiners in a timely manner, which resulted in delays in the examination process. UILIC was directed to devote sufficient resources to ensure that it responds to all future examination requests in a timely manner in accordance with 20 CSR 200-4.010 (Books, Records, Accounts and Vouchers).

***Company's Response:*** The Company will make every effort to comply with requests during the current and future examinations in a timely manner in accordance with 20 CSR 200-4.010.

***Current Findings:*** During the current examination, the Company responded to requests within a reasonable timeframe.

## **HISTORY**

### **General**

The Company was organized and incorporated in August 1981 as a subsidiary of Liberty National Life Insurance Company (Liberty National), a wholly owned subsidiary of Torchmark Corporation (Torchmark), under the name of United Merger Insurance Company. On October 26, 1981, United Merger Insurance Company merged with Continental Investment Corporation, the parent of Waddell & Reed, Inc. and United Investors Life Insurance Company. On March 31, 1982, United Investors Life Insurance Company merged into United Merger Insurance Company. United Merger Insurance Company, the surviving company, simultaneously changed its name to United Investors Life Insurance Company. In 1984, the Company moved to Birmingham, Alabama to share home office facilities with Torchmark and Liberty National. On March 31, 1986, Liberty National contributed all the issued and outstanding shares of United Investors Life Insurance Company to Torchmark Financial Services Company; which in turn contributed all the UILIC stock to LibFin Company. LibFin Company successively changed its name to TMK/United, Inc. (1986); United Investors Management Company (1988); and Waddell & Reed Financial, Inc. (1997). On October 1, 1993, Torchmark acquired the outstanding shares (approximately 19 percent) of Waddell & Reed Financial, Inc. (known then as United Investors Management Company) previously held by the public for approximately \$234 million.

On March 3, 1998, Waddell & Reed Financial, Inc. (W&R Financial) dividended the common stock of United Investors Life Insurance Company (W&R Financial's wholly-owned subsidiary) pro rata to Liberty National (81.2%) and Torchmark



Corporation (18.8%), based on their ownership percentage of W&R Financial. Later in 1998, W&R Financial became a separate legal entity through a combination of a March 4, 1998 initial public offering and a November 6, 1998 tax-free spin-off distribution to Torchmark common shareholders of all Torchmark's remaining 64% stock interest in W&R Financial. In 2001, Waddell & Reed, Inc, a subsidiary of W&R Financial, and UILIC terminated their sales agreements.

### **Capital Stock**

As of December 31, 2004, the Company was authorized to issue 500,000 shares of common stock with a par value of \$6 per share. All authorized shares were issued and outstanding: 405,901.5 shares issued to Liberty National and 94,098.5 shares issued to Torchmark. This resulted in a total of \$3 million in the Company's common capital stock account.

### **Dividends**

Since 1981, \$457,323,963 in cash dividends have been paid to UILIC stockholders. Dividends paid during the examination period were \$30 million, \$45.8 million, \$26.9 million, and \$64 million for the years 2001, 2002, 2003, and 2004, respectively.

### **Management and Control**

The directors elected and serving as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
William Thomas Aycock Birmingham, Alabama	Senior Vice President & Chief Actuary United Investors Life Insurance Company

Tony Gerald Brill Frisco, Texas	Executive Vice President, Administration United Investors Life Insurance Company
Gary L. Coleman Richardson, Texas	Exec. Vice President and Chief Fin'l Officer Torchmark Corporation
Terry Wayne Davis Birmingham, Alabama	Senior Vice President, Administration United Investor Life Insurance Company
Larry Mac Hutchison Duncanville, Texas	Exec. Vice President & General Counsel Torchmark Corporation
John Hartridge Livingston Birmingham, Alabama	Secretary & Counsel United Investors Life Insurance Company
Mark S. McAndrew Birmingham, Alabama	Senior Vice President United Investors Life Insurance Company
Carol Ann McCoy Birmingham, Alabama	Assistant Secretary United Investors Life Insurance Company
Anthony Leon McWhorter Birmingham, Alabama	President and Chief Executive Officer United Investors Life Insurance Company

The officers elected and serving as of December 31, 2004, were as follows:

Anthony L. McWhorter	President and Chief Executive Officer
Tony G. Brill	Executive Vice President – Administration
Mark S. McAndrew	Senior Vice President – Marketing
W. Thomas Aycock	Senior Vice President and Chief Actuary
Ross W. Stagner	Senior Vice President – Marketing
Terry W. Davis	Senior Vice President – Administration
Russell B. Tucker	Vice President
Michael J. Klyce,	Vice President and Treasurer
Elizabeth Ann Allen	Vice President – Claims Administration
James L. Mayton, Jr.	Vice President and Controller
Thomas E. Hamby	Vice President
Margaret G. Chandler	Second Vice President
T. Eugene Green	Second Vice President
Susan J. Huff	Second Vice President
Cathy C. Pilcher	Second Vice President – Compliance
Harold A. Phillips, Jr.	Second Vice President - Underwriting
John H. Livingston	Secretary and Counsel
W. Michael Pressley	Appointed Actuary
Danny H. Almond	Assistant Treasurer

Carol A. McCoy	Assistant Secretary
Teresa S. McCollum	Assistant Secretary
Kristin Patterson	Assistant Secretary
Wallace Lee James	Assistant Secretary
Elizabeth H. Gardner	Assistant Secretary
Jeffrey Ronilo	Assistant Controller

The Company's board of directors had no active committees during the examination period.

### **Conflict of Interest**

The Company has procedures which require all directors and officers to complete and sign a conflict of interest statement each year. Signed statements of directors and officers were reviewed for each year under examination. No material conflicts were revealed.

### **Corporate Records**

A review was made of the Company's Articles of Incorporation and Bylaws. There were no amendments thereto during the examination period. The Shareholders' and the Board of Directors' "Unanimous Consents in Lieu of Meetings" were reviewed. It appears that the Board of Directors reviewed all major corporate transactions.

### **Acquisitions, Mergers and Major Corporate Events**

There were no acquisitions or mergers that occurred during the examination period. During the examination period, UILIC received payment from Waddell & Reed Financial, Inc. (W&R) for disputed commissions withheld by W&R and then in May 2005 ultimately settled the outstanding litigation with W&R. See the "Subsequent Events" Section of this report for additional details.

### **Surplus Debentures**

As of December 31, 2004, the Company did not have any surplus debentures issued or outstanding.

## **AFFILIATED COMPANIES**

### **Holding Company, Subsidiaries and Affiliates**

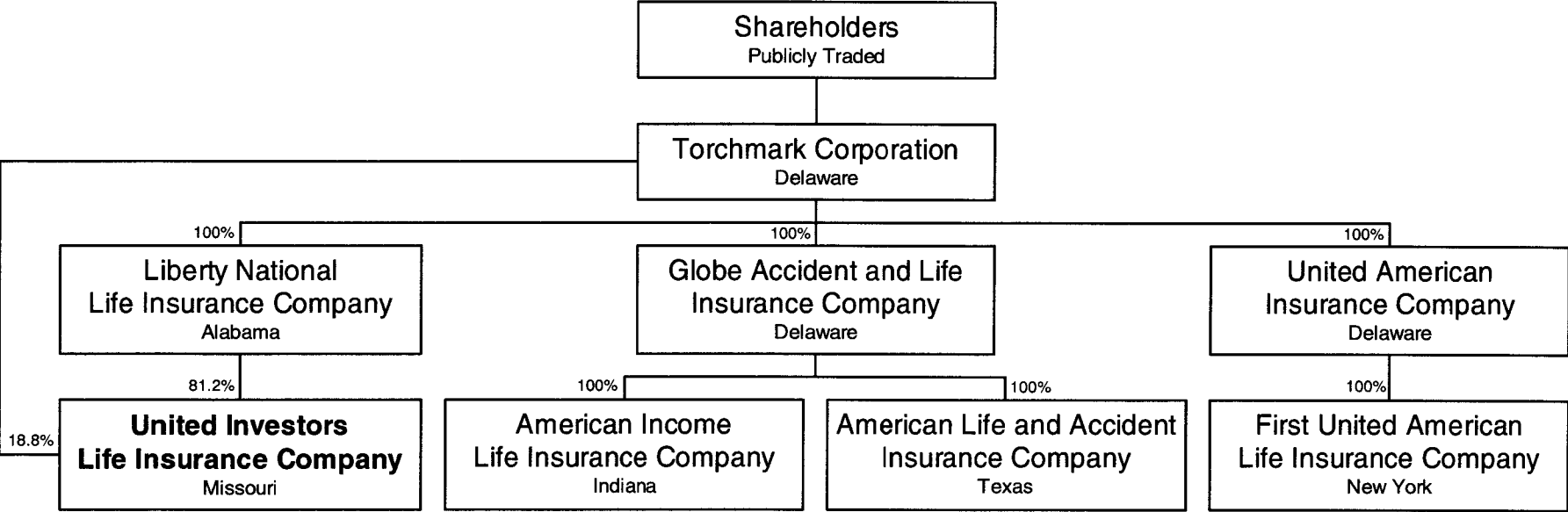
United Investors Life Insurance Company is a member of an Insurance Holding Company System as defined by section 382.010 RSMo (Definitions). UILIC is owned by Torchmark Corporation (Torchmark) (18.8%) and Liberty National Life Insurance Company (Liberty National) (81.2%), a wholly owned subsidiary of Torchmark. Liberty National is an Alabama-domiciled life and health insurer. Torchmark, an insurance and financial services holding company incorporated in Delaware, is the ultimate parent company. As of December 31, 2004, no person owned or controlled ten percent or more of Torchmark voting stock.

Insurance Holding Company System Registration Statements have been filed annually by and on behalf of UILIC with the State of Missouri during the examination period.

### **Organizational Chart**

The following organizational chart partially depicts the holding company system of United Investors Life Insurance Company as of December 31, 2004. There are other direct and indirect subsidiaries of Torchmark. However, these subsidiaries were too numerous to depict in the organizational chart.

Organization Chart



### **Intercompany Transactions**

UILIC has entered into various intercompany agreements including:

1.     **Type:**            Service Agreement  
  
       **Parties:**        UILIC and Torchmark and (under 1999 amendment) Waddell & Reed Asset Management Company (WRAMCO)  
  
       **Effective:**       January 1, 1991 (amended in 1999 and 2001)  
  
       **Terms:**          The companies agree to provide management expertise to each other as needed in such areas as strategic planning, financial, legal, accounting, employee benefits, treasury, and investments. All management assistance from Torchmark, except treasury and investment expertise, will cost UILIC a percentage of Torchmark's total operating expenses for the preceding year (based on the percentage of UILIC's salaries and benefits to Torchmark's consolidated salaries and benefits). Torchmark will reimburse UILIC for any direct expenses incurred by UILIC in providing services to Torchmark.  
  
                              The agreement was amended effective January 1, 1999, to assign from Torchmark to WRAMCO the rights and obligations related to providing investment services to UILIC and to establish the method of determining investment services fees. On April 3, 2001, WRAMCO was liquidated into Torchmark and the obligation to provide investment services to UILIC returned to Torchmark. The agreement was amended effective January 1, 2001, to recognize Torchmark as the investment management company and to establish compensation for investment services as follows: For bonds - 30 basis points on the first \$100 million; 20 basis point on the next \$400 million; and 15 basis points on amounts over \$500 million; For equities - 30 basis points on all levels.
  
2.     **Type:**            Service Agreement  
  
       **Parties:**        UILIC and Liberty National Life Insurance Company  
  
       **Effective:**       January 1, 1985 (amended in 1991 and 1993 to adjust fees)  
                              (amended in 1998 to add marketing through agents)  
  
       **Terms:**          Liberty National will provide administrative, professional, technical, and other services in areas such as accounting, actuarial, cash management, policy and claims administration, data

processing, legal, and personnel as UILIC may request, as well as home office space for UILIC. Compensation for these services is a fixed monthly fee (currently \$42,400) plus a monthly per policy fee of \$.20-\$.65. UILIC will also reimburse Liberty National for the actual cost of expenses incurred by Liberty National on UILIC's behalf which are not provided for in the agreement. Effective January 1, 1998, the agreement was amended to allow UILIC to use Liberty National agents for the sale of UILIC term products for a fee of 80% of first year premium and 15% of following years premium. Effective May 1, 2002, the agreement was amended to set the term product policy fees at 85% of first year premiums, 7.5% of premiums in policy years 2 through 10, and 3% of the following years' premiums.

3.     Type:           Marketing Agreement  
  
      Parties:       UILIC and Globe Life and Accident Insurance Company (Globe Life)  
  
      Effective:     January 1, 1998  
  
      Terms:        Globe Life will provide direct mail services to UILIC for the purpose of the sale of certain insurance products. UILIC will reimburse Globe for the actual cost of expenses incurred by Globe Life on UILIC's behalf.
4.     Type:           Consolidated Tax Allocation Agreement  
  
      Parties:       Torchmark Corporation and its subsidiaries, including UILIC  
  
      Effective:     January 1, 1989  
  
      Terms:        The agreement calls for each company to compute its tax liability on a separate return basis and pay that amount to Torchmark. Excluded from the calculation for all subsidiaries except First United American Life Insurance Company are the recognition of gain or loss on intercompany transactions and any carryovers of net operating loss, net capital losses, excess tax credits, and any other deductible or creditable items from prior taxable year. The agreement calls for the subsidiaries to pay any amounts due Torchmark by the date payments are due to the Internal Revenue Service. Torchmark is required to disburse any excess payments to the subsidiaries within fifteen days after filing the consolidated federal tax return for the applicable year.

Following is a table of amounts incurred (or received) under the above described UILIC intercompany service/marketing agreements. This table shows the other party to the agreement, the agreement name, and the dollar amount incurred (or received) by UILIC under each agreement for 2004, 2003, 2002, and 2001. Payments under the tax agreement are not included. Also omitted are the reimbursement of direct expenses.

<i>(Amounts in thousands)</i>	2004	2003	2002	2001
Torchmark:				
Service Agreement (Mgmt Fees)	\$504	\$494	\$660	\$722
Service Agreement (Investment Fees)	1,704	1,584	285	527
Liberty National				
Service Agreement	1,683	1,694	1,759	1,852
Globe Life and Accident				
Marketing Agreement	379	592	546	536
TOTAL	<u>\$2,798</u>	<u>\$2,848</u>	<u>\$2,869</u>	<u>\$2,679</u>

In addition to the intercompany agreements described above, UILIC also assumed business from two affiliates through 100% reinsurance agreements. These agreements are described in the “Reinsurance” Section of this report.

UILIC participated in a number of intercompany loans during the examination period, sometimes as the borrower and other times as the lender. These loans appear to have been adequately documented with a reasonable rate of interest charged. The Company did not however file one required Form D “Request for Prior Approval” and the necessary Form B amendments. The Company should make all required statutory filings on its lending activity going forward.

UILIC paid dividends during each year under examination to its stockholders. Dividends totalling \$30 million, \$45.8 million, \$26.9 million and \$64 million were paid to Torchmark and Liberty National during 2001, 2002, 2003, and 2004, respectively.



## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a Torchmark Corporation policy providing fidelity bond coverage. The policy has an aggregate liability limit of \$10 million and a single loss limit of \$5 million with a \$100,000 deductible. Also included in the fidelity bond policy is coverage for forgery, computer systems fraud, and securities and trading loss coverage; however, these coverages have a single loss limit of \$1 million. Other coverage includes counterfeit currency with a \$5 million single loss limit. The aggregate coverage in place meets the NAIC suggested minimum.

The Company is also a named insured on insurance policies issued to Torchmark Corporation for other types of coverage. These other coverages included, but were not limited to, mail bond, excess workers compensation, general liability, property, boiler and machinery, and fiduciary liability coverage. Neither Torchmark nor UILIC purchase directors and officers coverage, although UILIC Bylaws provide for the indemnification of directors, officers, and employees. Torchmark and UILIC have also elected not to purchase errors or omissions coverage.

## **PENSION, STOCK OWNERSHIP AND INSURANCE PLANS**

The Company, through its affiliates, provides a variety of standard benefits to its employees including a cafeteria plan, a contributory medical plan, a group life and disability plan, and sick leave. In addition, the Company participates in the following retirement plans for its employees (with the sponsors identified in the titles):

- a) Torchmark Corporation Savings and Investment Plan (defined contribution profit sharing) for employees employed prior to 1995;
- b) Torchmark Corporation Pension Plan (defined benefit plan) for employees employed prior to 1995;

- c) Torchmark Corporation Pension Plan (defined benefit plan) for employees employed prior to 1995;
- d) Liberty National Life Defined Contribution Plan for employees employed after 1994; and
- e) Liberty National Life Insurance Company 401(K) Plan for employees employed after 1994.

The Company also provides post-retirement life insurance benefits for its retired employees and certain limited post-retirement health benefits for its full time employees, up until their eligibility for medicare benefits.

It appears that adequate provision was made in the financial statements regarding the Company's obligation for these benefits detailed above.

## STATUTORY DEPOSITS

### **Deposits with the State of Missouri**

The funds on deposit with the Missouri Department of Insurance as of December 31, 2004, as reflected below, were sufficient to meet the capital deposit requirements for the State of Missouri in accordance with Section 376.290 RSMo (Trust Deposits). The funds on deposit as of December 31, 2004, were as follows:

<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
U.S. Treasury Notes	\$1,750,000	\$1,733,182	\$1,752,579

### **Deposits with Other States**

The Company also had funds on deposit with various other states in which it is licensed. Those funds on deposit as of December 31, 2004, were as follows:

<u>State</u>	<u>Type of Security</u>	<u>Par Value</u>	<u>Fair Value</u>	<u>Statement Value</u>
Georgia	U.S. Treasury Notes	\$105,000	\$103,991	\$105,155

Massachusetts	GE Cap Corp Sub Note	250,000	302,078	262,601
New Mexico	GE Cap Corp Sub Note	110,000	132,914	115,545
North Carolina	U.S. Treasury Notes	<u>400,000</u>	<u>423,968</u>	<u>430,094</u>
<b>Totals</b>		<u>\$865,000</u>	<u>\$962,951</u>	<u>\$913,395</u>

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operations**

United Investors Life Insurance Company is licensed by the Missouri Department of Insurance under Chapter 376 RSMo (Life and Accident Insurance) to do the business of life insurance, annuities, endowments, accident and health insurance, and variable contracts in the state of Missouri. The Company is licensed in the District of Columbia and all states except New York.

The Company currently markets individual life, individual annuities, individual term, interest-sensitive whole life, flexible premium variable life and variable annuity products through its general account activities. Deferred qualified and non-qualified variable annuity contracts and variable life contracts are marketed through the Company's separate accounts.

UILIC markets its traditional insurance products through independent channels and its affiliated Torchmark company distribution systems. Currently over 4,400 independent agents, located throughout 49 states and the District of Columbia, are licensed with UILIC. During 2004, Torchmark affiliates, Liberty National Life Insurance Company and United American Insurance Company, sold term life and other

non-variable life products for UILIC. However, in August 2004, Liberty National ceased selling UILIC re-entry term insurance in favor of its own products.

UILIC's variable annuity and life contracts are sold through independent broker-dealers. The Company currently has selling agreements with over 140 broker-dealers. These broker-dealers employ more than 2,400 representatives licensed to sell UILIC's variable products.

During the period from 1997 through 2000, Waddell and Reed, Inc. (W&R) was responsible for approximately 96% of the Company's direct business. Prior to late 1998, W&R was an affiliated corporation under the Torchmark Group. Due to changes in the relationships between W&R and UILIC, the sales agreements were terminated effective April 30 and December 31, 2001.

During the period under examination (2001 through 2004), UILIC's direct business written experienced small declines in two areas, life insurance premiums (\$136 million in 2001 to \$120 million in 2004) and annuity considerations (\$5 million in 2001 to \$3 million in 2004), while its direct deposit-type funds business dropped precipitously (from \$112 million in 2001 to \$19 to \$26 million in subsequent years). The decrease was due to the changes in the relationship with W&R as well as an industry-wide decline in the sale of variable universal life and variable annuity products attributed to the falling stock market and tax law changes.

During the examination period, UILIC also assumed a significant amount of individual annuity business from its affiliate, United American Insurance Company. See the Reinsurance Section of this report for additional details.

The Company does not prepare financial projections for future years or a long-range business plan on a stand-alone basis or as a clearly identified component of a corporate plan. It is recommended that the Company complete a detailed business plan covering the next three to five years.

**Policy Forms & Underwriting**  
**Advertising & Sales Material**  
**Treatment of Policyholders**

The Missouri Department of Insurance has a Market Conduct Division that performs a review of these issues and generates a separate market conduct report. The last market conduct examination was conducted in 2002 and covered the period from January 1, 2001 through December 31, 2001. No problems which would appear to have a material impact on the financial condition of the Company were disclosed in this report.

## **REINSURANCE**

**General**

The Company's reinsurance and premium activity for the four years under examination is detailed below.

<i>(in thousands)</i>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct Premiums	\$253,820	\$160,966	\$147,678	\$142,483
Assumed Premiums:				
Affiliates	7,790	18,346	119,975	57,327
Non-Affiliates	0	0	0	0
Ceded Premiums:				
Affiliates	0	0	0	0
Non-Affiliates	3,648	3,598	2,920	3,308
Net Premiums Written	<u>\$257,962</u>	<u>\$175,714</u>	<u>\$264,733</u>	<u>\$196,502</u>

**Assumed**

Effective January 1, 1997, UILIC assumed, on a 100% coinsurance - funds withheld basis, from its affiliate, United American Insurance Company (UAIC), all UAIC annuity policies in force as of December 31, 1996, and all annuities issued by UAIC subsequent to December 31, 1996. Premiums relating to these assumed annuities were \$7.5 million, \$18.1 million, \$119.7 million, and \$60.1 million for 2001, 2002, 2003, and 2004 respectively. As of December 31, 2004, funds withheld under this coinsurance agreement were \$409 million.

UILIC also had a 100% coinsurance agreement with another affiliate, Liberty National Life Insurance Company, for certain term and whole life products written during the period from October 1, 1985 to December 31, 1987. As of December 31, 2004, the face value of policies in force under this agreement was \$30.2 million and reserves were \$6.3 million.

**Ceded**

UILIC does not cede any annuity business or any group life business. As of December 31, 2004, less than 5% of the in-force amount of UILIC's individual life business was reinsured.

As of December 31, 2004, \$42.6 million, or 7%, of the ceded inforce reinsurance coverage related to survivor life business 100% ceded to Indianapolis Life Insurance Company (IndiLife). This agreement was entered into late in 1996. These survivor life policies are business in which UILIC is not interested in participating and IndiLife provides the underwriting and a portion of the administration for these policies.

For all other individual life products, UILIC cedes 100% of the coverage amount in excess of its per life retention to seven authorized reinsurers through a number of different reinsurance contracts. In general, UILIC retains between \$100,000 and \$500,000 per life, depending upon the age of the insured: \$500,000 on ages 0 to 60, \$250,000 on ages 61 to 70, and \$100,000 over 70. On older policies, UILIC's retention may be as low as \$50,000 and on certain specialty life products, UILIC retains only the first \$100,000 to \$200,000.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that an assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

During the review of the Company's financial statements and general ledger system, several issues were noted. The Company's general ledger system is less integrated and automated than expected and requires a manual process of downloading the general ledger to a spreadsheet to create a statutory trial balance for annual statement reporting. For each of the years the examiners reviewed, some general ledger accounts were omitted from the statutory trial balance while others were included in the incorrect annual statement line item or included at an incorrect balance. Although it does not appear this resulted in material errors, it clearly constitutes a control weakness. In addition, the Company's system did not lend itself to automated examination techniques, resulting in both a less effective and a less efficient examination. Specifically, detailed information was not available on-line or in downloads; plus, the examiners had to "drill

down” through several layers of reports to obtain detail transactions. This “drill-down” process was significantly more time-consuming for examiners and for Company personnel. It is recommended the Company evaluate its current system and consider whether initial costs required to replace or update it would be warranted by future savings in personnel and examination time as well as increased functionality. In any case, the Company is directed to either implement additional controls to address the weaknesses or eliminate the weakness through increased integration and other system enhancements.

Financial statements of the Company were audited by the CPA firm, Deloitte and Touche LLP of Dallas, Texas, for the years under examination.

The 2001 and 2002 Loss Reserves of the Company were reviewed and certified by Harry Wayne Wessinger, a member of the American Academy of Actuaries and a Valuation Actuary of Torchmark Corporation (parent of UILIC). For 2003 and 2004, Loss Reserves of the Company were reviewed and certified W. Michael Pressley, F.S.A., M.A.A.A., a member of the American Academy of Actuaries and a Corporate Actuary of Torchmark Corporation (parent of UILIC).

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004. Any examination adjustments to the amount reported in the Annual Statement and/or comments regarding such are made in the “Notes to the Financial Statements.” (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the “Notes to the Financial Statements.” These differences were



determined to be immaterial, concerning their effect on the financial statements. Therefore they were communicated to the Company and/or noted in the workpapers for each individual Annual Statement item.

### Analysis of Assets

	ASSETS	NON- ADMITTED ASSETS	NET ADMITTED ASSETS
Bonds	\$807,050,429		\$807,050,429
Preferred Stocks	52,200,000		52,200,000
Cash, Equivalents & ST Investments	2,581,765		2,581,765
Contract Loans	25,557,484	31,495	25,525,989
Other Invested Assets	1,040,885		1,040,885
Receivable for Securities	4,376,938		4,376,938
Investment Income Due & Accrued	15,099,053		15,099,053
Premiums and Considerations	35,365,166		35,365,166
Amts. Recoverable from Reinsurers	261,379		261,379
Funds Held By Reinsured Companies	409,128,892		409,128,892
Net Deferred Tax Asset	26,733,000	11,566,000	15,167,000
Guaranty Funds Receivable	8,491	8,491	0
EDP Equipment and Software	551,448	551,448	0
Furniture and Equipment	90,119	90,119	0
Receivable from Affiliates	3,766,233		3,766,233
Other Amounts Receivable	698,219	698,219	0
Other Assets Nonadmitted	314,563	314,563	0
From Separate Accounts Statement	1,594,759,769		1,594,759,769
Total Assets	<u>\$2,979,583,833</u>	<u>\$13,260,335</u>	<u>\$2,966,323,498</u>

**Liabilities, Surplus and Other Funds**

Aggr Reserve for Life Contracts	\$1,198,493,087
Liability for Deposit-Type Contracts	207,612
Life Contract Claims	10,341,000
Premiums & Annuities Received in Advance	810,574
Interest Maintenance Reserve	2,109,913
Commissions to Agents Due or Accrued	152,405
General Expenses Due or Accrued	72,109
Transfers to Separate Accounts Due or Accrued	(46,167,228)
Taxes, Licenses Fees Due or Accrued	202,500
Current Federal Income Taxes Payable	4,515,719
Unearned Investment Income	14,990
Amounts Withheld or Retained by Company	11,039
Remittances and Items not Allocated	2,247,900
Asset Valuation Reserve	4,037,556
Payable to Parent and Affiliates	9,851
From Separate Accounts Statement	<u>1,594,759,769</u>
<b>Total liabilities</b>	<b>\$2,771,818,796</b>
Common capital stock	3,000,000
Gross paid in and contributed surplus	52,000,000
Unassigned funds (surplus)	<u>139,504,702</u>
<b>Surplus as regards policyholders</b>	<b><u>\$194,504,702</u></b>
<b>Total liabilities and surplus</b>	<b><u><u>\$2,966,323,498</u></u></b>

### Summary of Operations

Premium and annuity considerations	\$176,268,177
Net investment income	96,350,919
Amortization of interest maintenance reserve	254,994
Commissions and expense allowances on reinsurance ceded	134,954
Miscellaneous Income:	
Income from fees associated with Separate Accounts	38,603,721
Miscellaneous income (loss)	672,711
<b>Total</b>	<b>\$ 312,285,476</b>
Death benefits	\$54,840,570
Annuity benefits	65,797,243
Disability benefits and benefits under accident and health contracts	705,154
Surrender benefits and withdrawals for life contracts	45,709,619
Interest and adjustments on contracts or deposit-type funds	433,476
Increase in aggregate reserves for life and A&H contracts	50,632,614
<b>Total</b>	<b>218,118,676</b>
Commissions on premiums, annuities, and deposit-type funds	14,128,067
Commissions and expense allowances on reinsurance assumed	3,072,242
General insurance expenses	14,734,728
Insurance taxes, licenses, and fees, excluding fed'l income taxes	3,169,606
Increase in loading on deferred and uncollected premiums	(281,239)
Net transfers to (from) Separate Accounts net of reinsurance	(8,848,997)
Aggr write-in for deductions: Admin chg on annuity bsns assumed	1,071,503
<b>Total</b>	<b>\$245,164,586</b>
<b>Net gain before federal income taxes</b>	<b>\$67,120,890</b>
Federal income taxes incurred	12,697,000
<b>Net gain from operations after federal income taxes</b>	<b>54,423,890</b>
Net realized capital gains (losses) less capital gains tax	(62,342)
<b>Net Income</b>	<b>\$ 54,361,548</b>

### Capital and Surplus Account

Surplus as regards policyholders, December 31, 2003	\$206,275,660
Net income	54,361,548
Change in net unrealized capital gains (losses)	(6,073)
Change in net deferred income tax	(3,877,000)
Change in nonadmitted assets and related items	3,801,297
Change in asset valuation reserve	(2,050,730)
Dividends to stockholders	(64,000,000)
<b>Surplus as regards policyholders, December 31, 2004</b>	<b><u>\$ 194,504,702</u></b>

### NOTES TO THE FINANCIAL STATEMENTS

None.

### GENERAL COMMENTS AND/OR RECOMMENDATIONS

#### **Intercompany Transactions (Page 13)**

UILIC participated in a number of intercompany loans during the examination period which appear to have been adequately documented with a reasonable rate of interest charged. The Company did not, however, file one required Form D "Request for Prior Approval" and the necessary Form B amendments. The Company should make all required statutory filings on its lending activity going forward.

#### **Territory and Plan of Operations (Page 18)**

The Company does not prepare financial projections for future years or a long-range business plan on a stand-alone basis or as a clearly identified component of a

corporate plan. It is recommended that the Company complete a detailed business plan covering the next three to five years.

**Accounts and Records (Page 21)**

It is recommended the Company evaluate its current system and consider whether initial costs required to replace or update it would be warranted by future savings in personnel and examination time as well as increased functionality. In any case, the Company is directed to either implement additional controls to address the weaknesses or eliminate the weakness through increased integration and other system enhancements.

**SUBSEQUENT EVENTS**

Since May 2000, United Investors Life Insurance Company has been in litigation with Waddell & Reed Financial, Inc. (W&R), incurring legal fees in excess of \$5 million (90% allocated to UILIC and 10% allocated to Torchmark). In October 2003, W&R delivered to UILIC \$12.8 million in disputed commissions plus interest previously withheld from UILIC after an Alabama Supreme Court ruling in UILIC's favor. Then in May 2005, UILIC and Torchmark settled for \$14.5 million outstanding litigation with W&R, including an appealed 2004 jury verdict of \$45 million in favor of UILIC against three W&R corporate entities. Torchmark retained \$13.8 million of the settlement funds and paid UILIC \$0.7 million. The only remaining W&R litigation is with Torchmark over tax issues, which do not directly involve or impact UILIC.

## ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of United Investors Life Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Larry Kleffner, CFE, Steve Koonse, CFE, Shawn Hernandez, CFE, and Andy Balas, CFE, examiners for the Missouri Department of Insurance, participated in this examination. Leon Langlitz, F.S.A., an associate of Lewis & Ellis, Inc., performed an actuarial review in conjunction with the examination.

## VERIFICATION

I, Vicki Denton, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

*Vicki L. Denton*

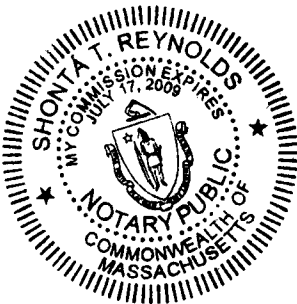
Vicki L. Denton, CFE  
Examiner-in-Charge  
Missouri Department of Insurance

Sworn to and subscribed before me this 28<sup>th</sup> day of September.

My commission expires:

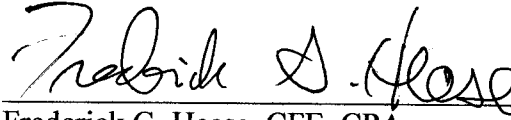
July 17, 2009  
Notary Public

*[Signature]*



### **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, reading "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA

Audit Manager

Missouri Department of Insurance